

KELLOGG, HUBER, HANSEN, TODD & EVANS, P.L.L.C.

1301 K STREET, N.W.

SUITE 1000 WEST

WASHINGTON, D.C. 20005-3317

MICHAEL K. KELLOGG

PETER W. HUBER

MARK C. HANSEN

K. CHRIS TODD

MARK L. EVANS

AUSTIN C. SCHLICK

STEVEN F. BENZ

NEIL M. GORSUCH

GEOFFREY M. KLINEBERG

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

(202) 326-7900

FACSIMILE:

(202) 326-7999

November 12, 1998

1 COMMERCE SQUARE

2005 MARKET STREET

SUITE 2340

PHILADELPHIA, PA 19103

(215) 864-7270

FACSIMILE: (215) 864-7280

Ex Parte Filing

Magalie Salas, Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

In re Matter of the Pay Telephone Reclassification  
and Compensation Provisions of the Telecommunications  
Act of 1996, **CC Docket No. 96-128**

Dear Ms. Salas:

Enclosed for filing in this docket are the original and one copy of a letter I sent to Craig Stroup on behalf of Southwestern Bell Telephone Company. I would ask that you include the letter and its attachment in the record of this proceeding in compliance with 47 C.F.R. § 1.1206(a)(2).

If you have any questions concerning this matter, please contact me at (202) 326-7902.

Yours sincerely,



Michael K. Kellogg

Enclosure

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FACSIMILE: (215) 864-7280

November 12, 1998

Mr. Craig Stroup  
Federal Communications Commission  
2033 M Street, N.W., Suite 500  
Washington, D.C. 20554

Re: Pay Telephone Reclassification and Compensation Provisions of  
Telecommunications Act of 1996, CC Docket No. 96-128

Dear Craig:

Attached is a letter from Ron Jennings of Southwestern Bell Telephone Company setting forth the information you requested on Maintenance and SG&A charges for SWBT's payphone unit.

I hope this answers all your questions. Please feel free to call me at (202) 326-7902 if you want to discuss this information further or need additional information.

Yours sincerely,



Michael K. Kellogg



November 10, 1998

Ronald M. Jennings  
Vice President-  
General Manager  
Public Communications

SBC Telecommunications, Inc.  
1010 N. St. Mary's, Room 901  
P.O. Box 2780  
San Antonio, Texas 78299-2780  
Phone 210 351-4500

Mr. Michael Kellogg  
Kellogg, Huber, Hansen,  
Todd & Evans, P.L.L.C.  
1301 K Street, N.W.  
Suite 1000 West  
Washington, D.C. 20005

Dear Michael:

As requested by Craig Stroup of the FCC, we are providing in this letter an explanation and analysis of the Maintenance and SG&A expense numbers in Project Quintet.

#### **AT&T's Version of Quintet versus SWBT's Version of Quintet**

This evaluation breaks down Quintet into the categories developed by AT&T in its November 1997 affidavit, attachment III. For sake of direct comparison, we have used the exact Quintet figures even though they don't adequately address access line charges, commissions, uncollectibles and Telco charges. We will address those and others issues later in this letter.

As you will see, in total the only difference between SWBT's representation of Quintet and AT&T's is that AT&T did not adequately break down operating costs into Maintenance and Selling, General & Administrative (SG&A) costs and they added \$3.16 per access line for Line Charges. Mr. Stroup wanted us to provide more detail on how we mapped Quintet's expenses to Maintenance and SG&A so the following paragraphs address that mapping.

SWBT assigned charges to Maintenance by looking to the actual costs incurred in 1996 for the labor and other costs required to install, maintain, collect and support payphones using actual time reported and actual costs incurred for those areas. These costs were used to allocate Quintet's expenses to the proper categories. As a result, the following items and percentages were attributable to Maintenance:

- 74.7% of all labor & benefits,  $\$42,931 * 74.7\% = \$32,069$
- 90.7% of all materials,  $\$8,374 * 90.7\% = \$ 7,595$
- 40.7% of contracted services,  $\$4,209 * 40.7\% = \$ 1,713$
- 56.3% of the remaining expenses, excluding commissions, uncollectible, access lines, depreciation, interest, taxes and telco charges.  $\$17,682 * 56.3\% = \underline{\$ 9,955}$
- Total costs of :  $\$51,333$
- Access Lines total 175,551
- Maintenance Cost Per Access Line  $(\$51,333 * 1,000) / (175,551 / 12) =$   $\$ 24.37$

SWBT then applied the remaining allocations to determine SG&A charges. Again, these charges do not include commissions, uncollectible, access lines, depreciation, interest, taxes and telco charges. As discussed in the next section, the telco charges (which, based on actual 1997 figures, amounts to \$6.14 per line) are particularly important because they are properly included in SG&A. The items and percentages used for SG&A in SWBT's analysis of Quintet are:

- 25.3% of all labor & benefits, \$42,931\*25.3% = \$10,862
- 9.3% of all materials, \$8,374\*9.3% = \$ 779
- 59.3% of contracted services, \$4,209\*59.3% = \$2,496
- 43.7% of all remaining expenses, excluding commissions, uncollectible, access lines, depreciation, interest, taxes and telco charges. \$17,682\*43.7% = \$ 7,727
- Total costs of : \$21,863
- Access Lines total 175,551
- SG& A Cost Per Access Line (\$21,863 \* 1,000) / (175,551 / 12) = \$ 10.38

In general discussions with Mr. Stroup, it sounded as if, without better information to the contrary, he attempted to use the force levels of the Customer Services Technicians (CST's) and Collectors, as a percentage of total force levels, as a surrogate for distribution of the total costs to get Maintenance and SG&A costs. This calculation of taking 338 CST's and 104 Collectors as a percent of 770 total heads, would generate 57% of all costs as Maintenance and 43% would be SG&A. While these are probably not the exact figures used, when comparing these percentages to our actual percentages, significant variances appear. For example, using 57% of Materials for Maintenance would generate \$4,773 in Materials allocated to Maintenance. Our actual percentage of 90.7%, generates \$7,595 in Materials, a \$2,827 difference or \$1.39 per access line. Again, these are only estimates, but actual costs do not follow the force relationships. As indicated above, SWBT's allocation of charges is based on actual costs incurred in 1996 for the labor and other costs required to install, maintain, collect and support payphones using actual time reported and actual costs incurred for those areas. These costs were used to allocate Quintet's expenses to the proper categories.

#### **Telco Charges**

Telco Charges are charges to SWBT Public Communications that are directly associated with the operations of the payphone unit, but are not charged to the unit. In general these charges are not considered controllable by Public Communications and therefore are controlled by each respective corporate department. In some cases these are actual charges prepared by the respective departments, in other cases the charges are estimates based on a standalone SWBT subsidiary of equal size and employee base. Some of these costs are existing costs that are currently controlled by those corporate departments, others are new incremental charges as a result of the structural separation requirements. We believe that these charges are properly included in SG&A. Quintet, however, did not take Telco charges into account at all. If we adjust the Quintet number for SG&A by including Telco charges (based on actual 1997 numbers) of \$6.14, the adjusted SG&A figure for Quintet becomes \$16.52. The following chart shows the various categories of charges that make up the Telco charges.

<b>TELCO CHARGE</b>	<b>AMOUNT</b>	<b>DESCRIPTION</b>
Rent		Market Value of Floor Space
Financial Support		Financial Control & Reporting Costs
Legal Support		Cost of Legal support
Human Resources		Cost of Human Resources support
Procurement:		
Motor Vehicle Leases		Cost of Leasing Vehicles
Coin Transport		Cost of Transporting Collected Coins
Procurement Costs		Costs of Coin Procurement staff
Refurbishment		Cost to refurbish and restock all coin items
Warehousing		Cost of Coin Warehousing space
Information Systems		Cost of required information systems
Refund Processing		Cost to process coin refunds
Advertising		Costs to provide separate ads
Total Telco Charges	\$13,000K	

### Quintet versus Reality

Even adjusted for Telco charges, Quintet is woefully inadequate as a basis for determining actual payphone costs. Most significantly, Quintet radically understates Access and Line Charges. The access and line charges used in Quintet were \$30.88 per access line. It is unclear to us where that figure came from, but it is very clear that it didn't adequately forecast the future costs of access. AT&T added \$3.16 for Usage charges bringing the total to \$34.04, but that still doesn't come close to addressing all of the costs. The proper charges for each line type could have been easily verified by researching state tariffs. SWBT's actual 1997 access & transport cost was \$51.50 per access line per month.

Quintet also understated or ignored commissions and uncollectibles on existing traffic. In addition, Quintet totally ignores all future expenses associated with per call compensation. These expenses, which must properly be considered, include commissions, collection costs, and bad debt attributable to per call compensation. They amount to over \$5 per access line per month. These and other mistakes that we have discussed in filings with the Commission make both Quintet and AT&T's gloss on Quintet an inadequate basis for determining actual payphone costs.

I think this addresses all of the concerns raised in last week's conference call.



Ronald M. Jennings